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Taiwan

FRESH DECIDUOUS FRUIT ANNUAL

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Report Highlights:

The apple is, far and away, the most heavily consumed imported fruit in Taiwan. Fuji, with its sweet taste and firm texture, remains the overwhelmingly favored variety – recently accounting for 90% of total retail apple sales. Local apple production is negligible supplying only some 3% of domestic demand. The consumption of apples is not expected to reach the highs seen in the late 1990s but should remain in the 120-140 K mt range through the next few years. In MY2008, the United States continued to be the leading supplier accounting for 38% of the imported apple market.

Executive Summary:

Characteristics of the Taiwan Fruit Market

- World's highest per capita consumption of fresh fruit -- 135 kgs which is about 2-3 times more than other countries.
- Imported fruit market share vs domestic fruit -- 10% by value; 25% by volume
- In Taiwan, there is no trait that is "too sweet," always the sweeter the better.

Taiwan Apple Production – 4,163 mt

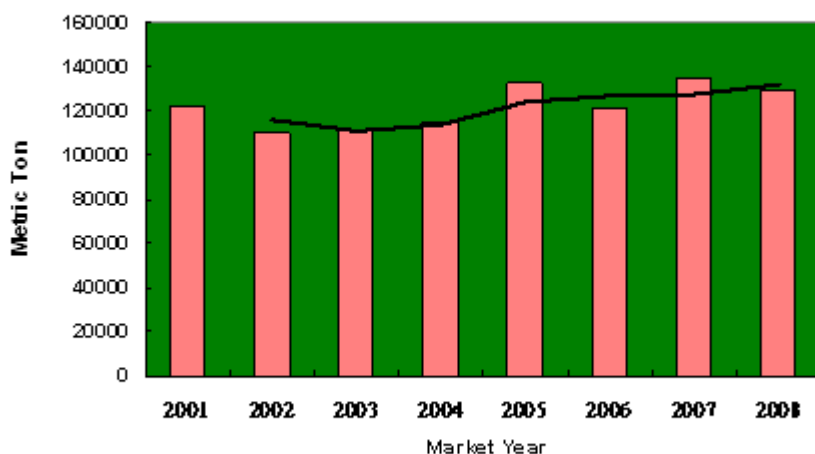
Taiwan produces a small amount of fresh apples with an annual production of nearly 6,000 metric tons over the past few years that reflected a downward trend since its accession to the WTO in 2002. In MY2008, the apple production dropped further to 4,163 mt, a 30% decrease from the previous year. The local produced apples are no longer profitable and competitive due to high labor/transportation costs and overwhelming imports from various sources.

Taiwan Apple Imports – 128,898 mt

Taiwan imported nearly 129,000 mt of apples in MY2008. The United States has been dominating the Taiwan apple market. However, the entry of major apple suppliers from Japan and Korea in the Northern Hemisphere and New Zealand and Chile in the Southern Hemisphere that were formerly only allowed to export to Taiwan under quota has shifted some market share away from U.S. apple suppliers. Overall market share of apple imports from the United States has been in decline since 2002.

Fuji, with its sweet taste and firm texture, remains the overwhelmingly favorite variety in Taiwan – recently accounting for 90% of total retail apple sales.

Taiwan Apple Imports



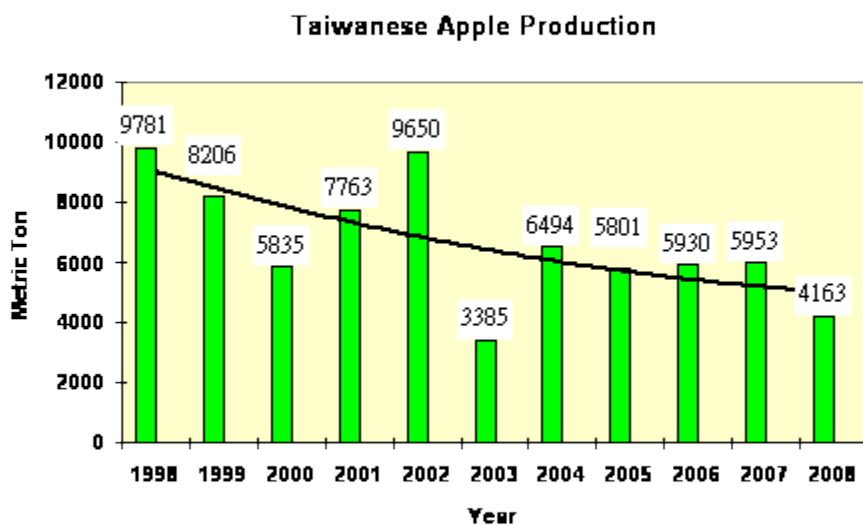
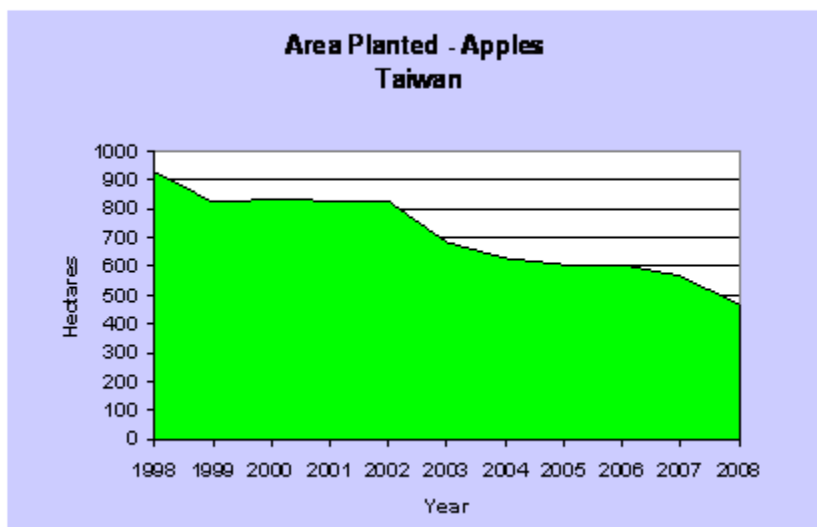
Commodities:

Apples, Fresh

Production:

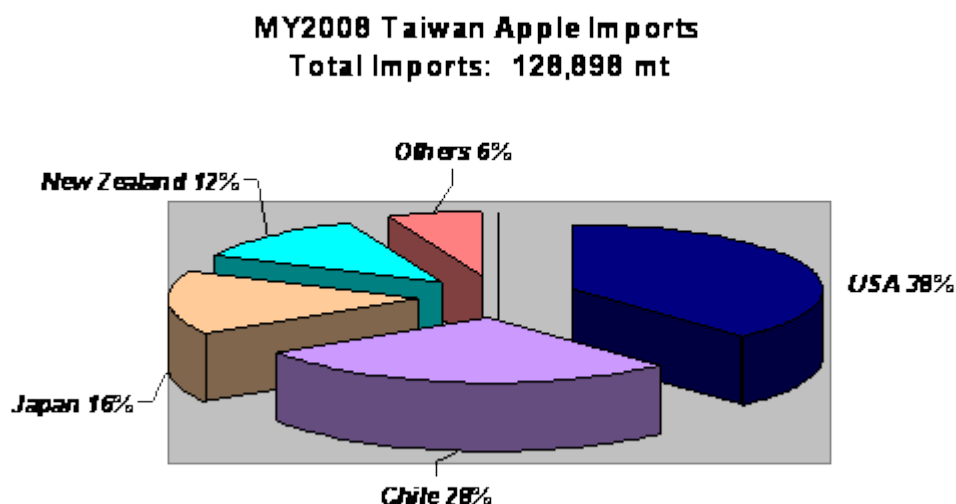
Even prior to accession to the World Trade Organization (WTO) in 2002, Taiwan's annual apple crop, grown in orchards set in Taiwan's temperate central mountain range, was not significant, less than 10,000 mt per year. Since WTO accession and market liberalization, cropland has been steadily taken out of production. In MY2008, only 4,100 mt of fresh apples were harvested, a significant 30% drop from the previous year. This was mainly attributed to damages caused by 3-4 typhoons during the season. The table below shows a downward trend of area planted since 2002. The trend is that more and more land that used to be devoted to apples are now used to plant mountain vegetables. Locally produced apples are no longer profitable and competitive in the market. Local production is currently able to supply only some 3% of domestic demand, making the impact of annual fluctuations in local crop yields on imports insignificant. The industry is likely to continue slowly contracting due to high production costs and labor retention problems.

Local production is principally the Fuji variety. Nearly 100 percent of commercially-grown local apples are estimated as sold for fresh consumption.



Trade:

In MY2008, Taiwan imported a total of 128,898 metric tons or nearly US\$137 million of apples, a 4 percent decrease in terms of volume and an over 6 percent increase in terms of value from the previous year. The United States continued to be the leading supplier with 38% of the market, followed by Chile (28%), Japan (16%), and New Zealand (12%).

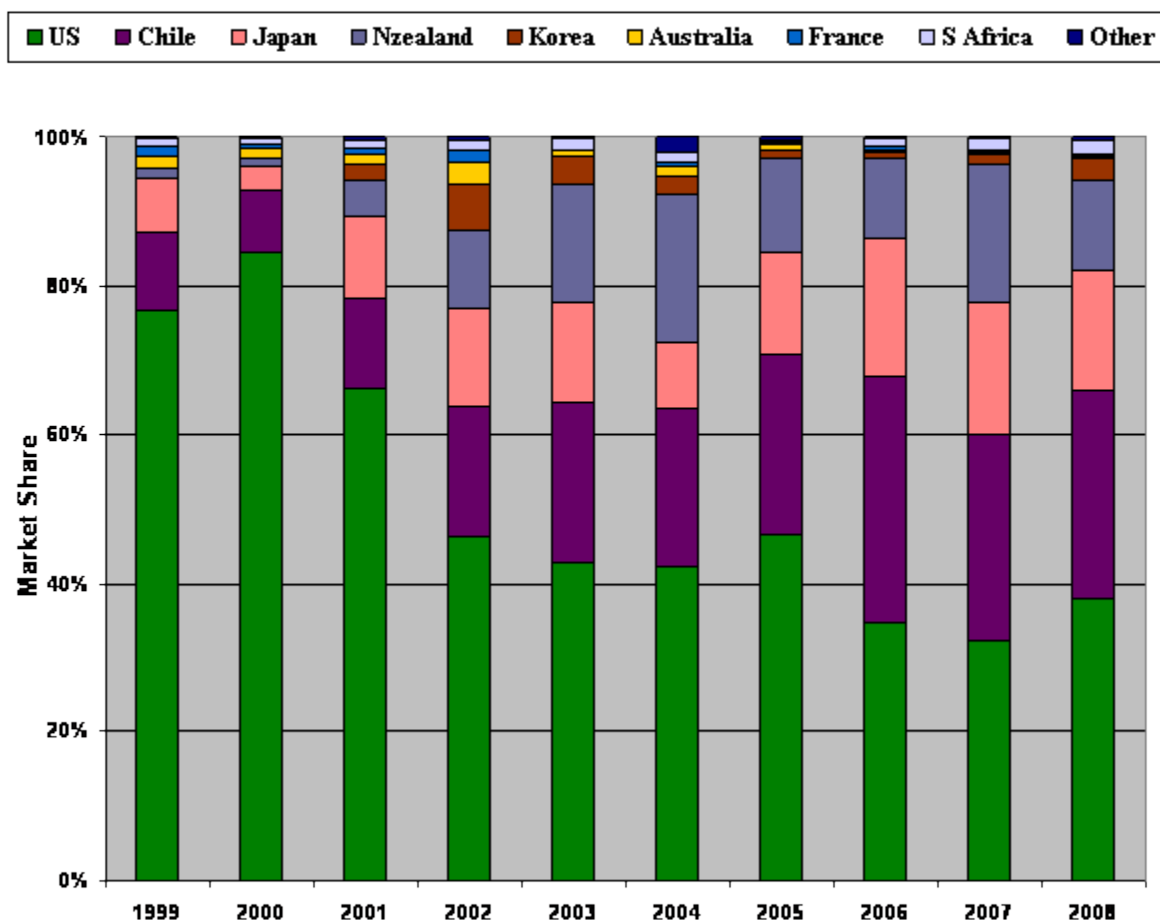


Currently, U.S. apple exports are mainly from Washington State, accounting for an estimate of nearly 90% of the total exports. California apple exports to Taiwan have declined in recent years. As shown in the table below, the U.S. market share began a downward trend in 2001. Taiwan's 2002 entry into the WTO eliminated previous quota restrictions on all countries formerly approved to export to Taiwan under quota (Chile, New Zealand, Australia, Japan, South Africa, Argentina, and the European Union) and removed a previous ban on apple imports from South Korea. China remains prohibited from exporting fresh apples to Taiwan for phytosanitary reasons.

Taiwan Apple Imports, by Country of Origin

Marketing Year (July-June) 1999-2008

Unit: MT



Source: Taiwan Council of Agriculture

With the Taiwan fresh apple consumption 'pie' looking set to remain at about the same size for the coming few years and the market open to all major producers (with the important exception of China), importers now have a broad choice of suppliers and countries from which to choose. The pie, divided up, will keep varying based on supplier prices, product quality, and availability.

In general, while Taiwan buyers do express a continued preference for U.S.-origin Fuji apples, apple importers have shown themselves more than willing to shift purchase orders to other competing supplier countries when cost factors run against U.S. exporters. A recently significant change of attitude towards importing apples by Taiwan importers is that they do not want to risk placing a large volume forward order of apples from one single supplier or country wherever its apple exports might be suspended due to detection of codling moth or peach moth. Taiwan importers need the flexibility to switch their orders to other countries if the supplier country was to be suspended. As a result of this new trend, many larger U.S. companies are less eager to offer aggressive pricing on smaller, multiple orders of product.

At the consumer level, Japanese apples are currently receiving positive reviews (generally good taste, relatively small size, excellent appearance, and competitive price). Industry executives indicated that Korean Fuji apples with already improved color/brix level and with competitive prices, will become a strong competitor for U.S. apples in the near future.

Taiwan currently applies a 20% tariff on apple imports, down significantly from the 50% tariff applied prior to January 2002. Taiwan Customs assesses tariffs due on a shipment based on a region-specific reference price rather than the invoiced value.

Marketing:

The apple is currently the most heavily consumed imported fruit in Taiwan. Only oranges, 95% of which are grown domestically, are consumed in greater quantity. However, in terms of real growth, the apple is losing ground to a host of other imported fruits, including peaches/nectarines, kiwifruits, grapes, plums, pears, and cherries. Due to the variety of imported and domestic fruits now available, consumption of apples is not expected to reach the highs seen in the late 1990s without some new factor or factors changing the competitive picture (e.g., such as new positive findings regarding the health benefits of apples or an expansion of fruit consumption in general).

MY2008 Major Taiwan Fruit Imports (Metric Tons)

| Major suppliers | | |
|------------------------|---------|---|
| Apples | 130,000 | US(38%);Chile(28%);Japan(16%);(NZeland 12%) |
| Peaches/ Nectarines | 30,000 | US (77%); Chile (23%) |
| Kiwifruits | 25,000 | New Zealand (78%); Italy & France (18%) |
| Grapes | 21,000 | US (54%); Chile (28%); Australia+S.Africa (13%) |
| Plums | 12,000 | US (85%); Chile (15%) |
| Pears | 11,000 | Korea (84%); US (9); Japan (5%) |
| Cherries | 9,000 | US (56%); Chile (29%); New Zealand (8%) |

Source: World Trade Atlas

Nearly all fresh fruit imports, apples included, are consumed as fresh produce. The Taiwan consumer's emphasis on both convenience and freshness is the key to channel fresh produce in the market. Currently, traditional/neighborhood wet markets account for about 50% of all fresh apple sales, followed by small fruit shops/street hawkers (34%), and supermarkets/hypermarkets (16%). Due to current sluggish economy and continuous acquisition/merger within the

supermarket/hypermarket industry, store expansion for these modern retail stores is anticipated to slow down and thus overall re-structuring of the market share is not expected in the near future.

Fresh Apple - Retail Distribution Channel

| | |
|--------------------------------------|-----|
| Traditional/neighborhood wet markets | 50% |
| Supermarkets/hypermarkets | 16% |
| Small fruit shops/street hawkers | 34% |



Taiwan Consumers' Preferences

The apple symbolizes many positive things to the Taiwan consumers. Unless bought solely for personal consumption, the color, size, and general appearance of fruit is typically quite important to Taiwan retail customers. The "best-looking" fruit,

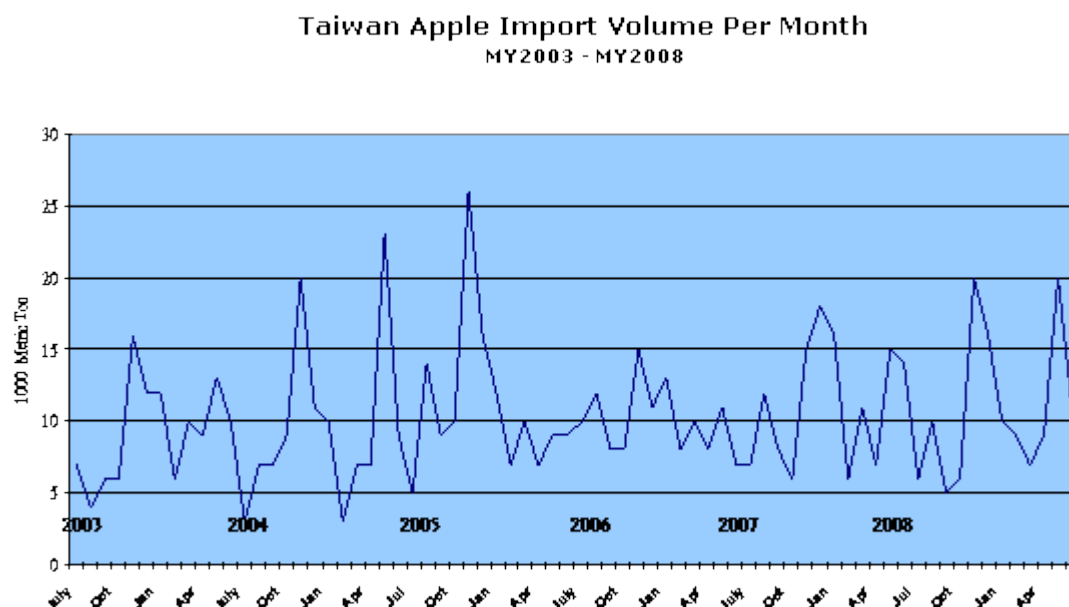
sold in gift packaging, fetches the highest prices. The most expensive apples on the market, Japan-grown Fujis, sell well at premiums of 100% because of their size and consumers' quality perceptions. While countries like the United States, Chile and New Zealand continue to focus on supplying the Taiwan market with traditional varieties, Japan is having some success at introducing less common varieties into the market to maintain its "premium" image and justify higher prices to consumers. It is not uncommon to find Japanese and Korean fruit in the market at US\$6-8 per piece. This fruit is often hand packed in special styrofoam trays and is often wrapped in tissue paper.



Seasonal Preferences

While eaten year round, Taiwan consumers purchase significantly more apples during the autumn and winter months - the prime production months for northern hemisphere growers. Reasons for this include general perception of the apple as a "cool weather" fruit and the incorporation of apples into the many festivals held during this time of the year. Local, tropical fruit such as mangos, papaya, and lychees dominate the summer months. Fuji with its sweet taste and firm texture, remains the overwhelmingly favorite variety – recently accounting for 90% of total retail apple sales. The remainder is comprised of mainly Gala, Red Delicious, and Granny Smith. Taiwanese send food products in gift packages to their friends and relatives during three major lunar-year festivals: Chinese New Year (usually in February); the Dragon Boat Festival (usually in June); and the Moon Festival (usually in September). Fuji apples replaced Red Delicious many years ago as one of the

most popular gift items during the lunar New Year holiday in Taiwan. The chart below illustrates the higher-than-average apple imports during Taiwan's autumn & winter months recorded over the past six years.



Source: Taiwan Council of Agriculture

To maintain its dominant position – particularly against “new” competitors such as Japan, Korea, and New Zealand – U.S. suppliers should continue working closely with Taiwan importers, distributors, and retailers to reinforce the strong positive image that U.S. apples presently enjoy in Taiwan to ensure continued consumer loyalty to U.S. –origin apples:

“Fruit & Vegetable Rainbow 5-7-9” Program

Through funding by USDA’s Global Based Initiative (GBI) program, the ATO Taipei, the Washington Apple Commission, and 12 U.S. fruit and vegetable trade associations continue to work with the Formosa Cancer Foundation’s (FCF) to promote a “Fruit & Vegetable Rainbow 5-7-9 Campaign” in Taiwan. This 3-year GBI program, originally known as a “5-a-Day” program and was initiated in 2007, focuses on elementary school children in Taiwan and is designed to promote nutrition by increasing overall market demand for fresh fruits & vegetables. So far, the in-school nutritional seminars have reached more than 310,000 children from over 1,000 elementary schools, and, by extension, their families. The goal is to foster substantial and long-term growth in fresh fruit and vegetable consumption in Taiwan resulting in a healthier population. As the major supplier of imported fruit and vegetables in Taiwan, the United States will certainly stand to benefit significantly from any increase in consumption. The program has been very popular with Taiwan schools, and more and more schools are requesting inclusion in the program.



Children's nutrition checkbook that contains many coupons for discounts on selected fruits and vegetables including U.S. apples that were redeemed at 225 participating Wellcome Supermarket stores through the island.



Sponsors and cosponsors of the “2009 Fruit & Vegetable Rainbow 5-7-9” program



The 2009 “Fruit & Vegetable Rainbow 5-7-9” program will conclude on December 22 with a lucky drawing where several children will receive various prizes including two United Airlines tickets to the U.S., a trip to the State of Montana, and cartons of fresh fruit from several US fruit importers. The “5-7-9” promotion has attracted a great deal of media attention in Taiwan with various reports, print or electronic, on the program and the nutritional value of fresh fruit & vegetables. There is a small amount of funding left over from 1009 that will be used by FCF to launch a 4th year of the program in spring 2010. this will be the last year of USDA sponsorship for this most successful program.

Other Regulations and Requirements:

General Phytosanitary Requirements

U.S. apple exports to Taiwan are subject to pest-free phytosanitary certification requirements for the following pests: (1) codling moth, (2) apple maggot, (3) plum curculio, (4) western flower thrips, (5) fire blight, and (6) peach twig borer. Export of Apples and Mexican fruit fly host materials originating from the State of Texas are prohibited because BAPHIQ has not recognized Texas as a State that is free from *Anastrepha ludens*. There are no apple exports from Texas according to BAPHIQ's data. Exports of all fresh fruit from the Mediterranean fruit fly and Mexican fruit fly regulated areas in Los Angeles County and San Diego County, California are suspended. All fresh fruit originating from the United States to Taiwan via Los Angeles and San Diego must be packed in pest-proof packages which meet the "Quarantine Requirements for Transshipment of Plants or Plant Products through Countries or Districts Where Designated Diseases or Pests are Known to Occur." This requirement is not applied to those shipments transiting through ports other than Los Angeles and San Diego ports in California.

In August 2003, the U.S. and Taiwan agreed on a new systems approach quarantine work plan for apples that requires improved pre-screening in the packing shed, while also putting in place a system of graduated penalties for the detection of codling moth, permitting three codling moth detections (three strikes) in the course of routine inspections in Taiwan before the market is shut down to suppliers from the affected country and investigations are made. Currently, the three strikes still remain as penalties. The “correction period” for one strike, no matter how many detections are found during the correction period, has been extended to two weeks since the 2007-2008 apple season. The supplier is required to provide an investigation report and take needed corrective action during the “correction period.”

Taiwan establishes its own maximum residue limits (MRLs) for chemical compounds and many pesticides used in the United States have not been assigned Taiwan MRLs. The default MRL for a compound where a MRL has not been established is the smallest detectable amount – which is effectively zero. Violation of the standard generally results in recall of the product. FAS and APHIS offices are working with Taiwan authorities to speed up the process of establishing new MRLs or in ways to adopt MRLs through international standard bodies such as the CODEX. The lack of MRLs for a long list of chemical compounds not commonly used in Taiwan effectively results in a “ban” on many imported products into the Taiwan market. This problem is being taken very seriously.

Currently, imports of fruit and vegetables are subject to inspection for pesticides at port of entry by Taiwan’s Bureau of Standards, Metrology & Inspection (BSMI). Currently, Taiwan uses state of the art inspection systems for pesticide residues on imported fresh fruit and vegetables. Each fruit shipment will have 2.5 percent of chance of being sampled and tested upon arrival by the BSMI for pesticide residues. Shipments are released for sale after the retrieval of samples and a document review. Noncompliance with Taiwan’s pesticide standards results in the recall of the unconsumed shipment product. And, the chance of being tested by BSMI for the next shipment imported by the same importer despite sources will be increase to 20 percent. If the same company continues to violate the pesticide standards for the third shipment, then all shipments imported by this company will be subject to testing. Release of these shipments is not permitted until testing is completed. The upgrade of the testing probability is subject to continuous five shipments by the same company with a total volume of over three times of the previous shipment that violated the regulations.

Production, Supply and Demand Data Statistics:

Statistics :

Production, Supply and Demand Data

| Fresh Apples, Taiwan | 2007 | | | 2008 | | | 2009 | | |
|-------------------------|-----------------------------|--|----------|-----------------------------|--|----------|-----------------------------|--|----------|
| | 2007/2008 | | | 2008/2009 | | | 2009/2010 | | |
| | Market Year Begin: Jul 2007 | | | Market Year Begin: Jul 2008 | | | Market Year Begin: Jul 2009 | | |
| | USDA Official Data | | Old Post | USDA Official Data | | Old Post | USDA Official Data | | Jan |
| | | | Data | | | Data | | | Data |
| Area Planted | 568 | | 568 | 550 | | 468 | | | 436 (HA) |
| Area Harvested | 568 | | 568 | 550 | | 466 | | | 430 (HA) |

| | | | | | | | | | |
|------------------------|---------|--|---------|---------|--|---------|--|---------|--------------|
| Bearing Trees | 200 | | 200 | 190 | | 167 | | 154 | (1000 TREES) |
| Non-Bearing Trees | 0 | | 0 | 0 | | 0 | | 0 | (1000 TREES) |
| Total Trees | 200 | | 200 | 190 | | 167 | | 154 | (1000 TREES) |
| Commercial Production | 5,953 | | 5,953 | 5,500 | | 4,163 | | 3,761 | (MT) |
| Non-Comm. Production | 0 | | 0 | 0 | | 0 | | 0 | (MT) |
| Production | 5,953 | | 5,953 | 5,500 | | 4,163 | | 3,761 | (MT) |
| Imports | 135,000 | | 134,395 | 134,000 | | 128,898 | | 124,000 | (MT) |
| Total Supply | 140,953 | | 140,348 | 139,500 | | 133,061 | | 127,761 | (MT) |
| Fresh Dom. Consumption | 140,953 | | 140,348 | 139,500 | | 133,061 | | 127,761 | (MT) |
| Exports | 0 | | 0 | 0 | | 0 | | 0 | (MT) |
| For Processing | 0 | | 0 | 0 | | 0 | | 0 | (MT) |
| Withdrawal From Market | 0 | | 0 | 0 | | 0 | | 0 | (MT) |
| Total Distribution | 140,953 | | 140,348 | 139,500 | | 133,061 | | 127,761 | (MT) |
| TS=TD | | | 0 | | | 0 | | 0 | |
| Comments | | | | | | | | | |
| AGR Number | | | | | | | | | |
| Comments To Post | | | | | | | | | |

Import Trade Matrix

| Country | | Taiwan | |
|-------------------|---------------|--------------|-------|
| Commodity | Apples, Fresh | | |
| Time Period | MY 07/08 | Units: | MT |
| Imports for: | 2007 | | 2008 |
| U.S. | 43719 | U.S. | 49093 |
| Others | | Others | |
| Chile | 36992 | Chile | 36374 |
| Japan | 23635 | Japan | 20427 |
| New Zealand | 24911 | New Zealand | 15445 |
| South Africa | 2139 | Korea | 3992 |
| Korea | 1749 | South Africa | 2726 |
| France | 410 | Australia | 520 |
| Canada | 423 | Canada | 258 |
| Australia | 416 | France | 63 |
| | | | |
| Total for Others | 90676 | | 79805 |
| Others not Listed | 0 | | 0 |

Grand Total

134395

128898